

ORDER NO. 2500

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman;  
Tony Hammond, Vice Chairman;  
Mark Acton;  
Ruth Y. Goldway; and  
Nanci E. Langley

Competitive Product Prices  
Global Expedited Package Services 3 (MC2010-28)  
Negotiated Service Agreement

Docket No. CP2015-9

ORDER APPROVING MODIFICATION TO  
GLOBAL EXPEDITED PACKAGE SERVICES 3  
NEGOTIATED SERVICE AGREEMENT

(Issued May 22, 2015)

I. INTRODUCTION

The Postal Service seeks to modify a Global Expedited Package Services 3 negotiated service agreement.<sup>1</sup> For the reasons discussed below, the Commission approves the Modification.

In Order No. 2256, the Commission approved the Global Expedited Package Services 3 negotiated service agreement (Existing Agreement).<sup>2</sup> On May 13, 2015, the Postal Service filed notice that it has agreed to the Modification to the Existing

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<sup>1</sup> Notice of the United States Postal Service of Filing Modification to Global Expedited Package Services 3 Negotiated Service Agreement, May 13, 2015 (Notice). The Modification is an attachment to the Notice (Modification).

<sup>2</sup> See Order Approving Additional Global Expedited Package Services 3 Negotiated Service Agreement, November 21, 2014 (Order No. 2256).

Agreement. On May 14, 2015, the Commission issued an order reopening this docket to consider the Modification, appointing a Public Representative, and providing interested persons with an opportunity to comment.<sup>3</sup>

The Postal Service intends for the Modification to take effect June 1, 2015. Notice at 1. The Postal Service filed supporting financial documentation and a certified statement, as required by 39 C.F.R. § 3015.5. *Id.* The Postal Service asserts that the Modification will not impair the ability of the contract to comply with 39 U.S.C. § 3633. *Id.* Attachment 2 at 1.

## II. COMMENTS

Comments were filed by the Public Representative.<sup>4</sup> No other person submitted comments. The Public Representative reviewed the Modification, the Existing Agreement, and the financial model filed under seal. PR Comments at 2. Based on that review, she concludes that the Existing Agreement, as modified, should continue to generate sufficient revenues to cover costs and satisfy 39 U.S.C. § 3633(a). *Id.* However, she observes that the modified prices for a shipping service offered under the Modification do not generate sufficient revenue to cover costs, meaning that this shipping service is subsidized by the other shipping service offered under the Existing Agreement. *Id.* She concludes that under current mail volume distribution, the shortfall does not pose a threat to cost coverage for the overall contract, but notes that cost coverage might fall below 100 percent if mail distribution changes significantly. *Id.* at 3. She acknowledges that her concern about cost coverage is mitigated somewhat by the requirement that the Postal Service file volume, revenue and cost data for the contract in its Annual Compliance Report, as this will permit the Commission to review the contract for compliance with 39 U.S.C. § 3633. *Id.* at 4.

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<sup>3</sup> Order No. 2483, Notice and Order Concerning Modification to a Global Expedited Package Services 3 Negotiated Service Agreement, May 14, 2015.

<sup>4</sup> Public Representative Comments on Postal Service Notice Concerning Modification to Global Expedited Package Services 3 Negotiated Service Agreement, May 21, 2015 (PR Comments).

### III. COMMISSION ANALYSIS

The Commission has reviewed the Notice, the accompanying materials filed under seal, and the comments filed by the Public Representative.

*Cost considerations.* The Commission reviews competitive product prices to ensure that each product covers its attributable costs, does not cause market dominant products to subsidize competitive products, and contributes to the Postal Service's institutional costs. 39 U.S.C. § 3633(a); 39 C.F.R. §§ 3015.5 and 3015.7. As long as the revenue generated by the product exceeds its attributable costs, the product is unlikely to reduce the contribution of competitive products as a whole or to adversely affect the ability of competitive products as a whole to contribute an appropriate share of institutional costs. In other words, if a product covers its attributable costs, it is likely to comply with 39 U.S.C. § 3633(a).

The Existing Agreement provides the customer with certain expedited international mail services.<sup>5</sup> The Modification addresses the use of permit imprints (in Article 5), adds a new paragraph to Article 6 (text redacted), revises the minimum contractual commitment (in Article 11), and replaces price charts (in Annex 2). Notice at 1.

Based on a review of the record, the Commission finds that the Existing Agreement, as modified, should cover its attributable costs. The Public Representative states that the modified prices for one of the shipping services offered under the Modification may not cover its attributable cost, but asserts that the revenue for the agreement as a whole should continue to exceed the Existing Agreement's, as modified, attributable cost. Consequently, the Commission finds that the Modification should allow the Global Expedited Package Services 3 product to continue to comply with 39 U.S.C. § 3633(a)(2). For this reason, the Commission finds that the Modification should not result in competitive products as a whole being subsidized by

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<sup>5</sup> Notice of United States Postal Service of Filing a Functionally Equivalent Global Expedited Package Services 3 Negotiated Service Agreement and Application for Non-Public Treatment of Materials Filed Under Seal, November 12, 2014, at 4.

market dominant products, in accordance with 39 U.S.C. § 3633(a)(1). Similarly, it finds the Modification is unlikely to prevent competitive products as a whole from contributing an appropriate share of institutional costs, consistent with 39 U.S.C. § 3633(a)(3). Accordingly, a preliminary review of the Modification indicates it is consistent with section 3633(a). The Commission will review the cost coverage of the Existing Agreement, as modified, the cost coverage of the Global Expedited Package Services 3 product, and the contribution of competitive products as a whole to the Postal Service's institutional costs in the Commission's Annual Compliance Determination to ensure that they continue to comply with 39 U.S.C. § 3633(a).

*Other considerations.* The Postal Service intends the rates in the Modification to take effect June 1, 2015. The Existing Agreement, as modified, is set to expire 1 year after the initial effective date unless, among other things, either party terminates the contract with 30 days' written notice to the other party. *Id.* at 3.

If the Existing Agreement, as modified, is terminated prior to the scheduled expiration date, the Postal Service shall promptly notify the Commission.

In conclusion, the Commission approves the Existing Agreement, as modified.

#### IV. ORDERING PARAGRAPHS

*It is ordered:*

1. The Commission approves the Global Expedited Package Services 3 negotiated service agreement, as modified.
2. The Postal Service shall notify the Commission if the Existing Agreement, as modified, terminates prior to the scheduled expiration date.

By the Commission.

Ruth Ann Abrams  
Acting Secretary